



DATE: June 8, 2010

TO: RANDY COOPER, Director, PARCS  
JERRY HAYNES, Assistant Director, PARCS  
PAUL MELIKIAN, Administrative Manager, PARCS

THROUGH: RENENA SMITH, Budget Director *Renena Smith*  
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor *Bob Koury*  
BILL RICHARDS, Internal Auditor *Bill Richards*  
Budget and Management Studies Division - Internal Audit

SUBJECT: FINAL AUDIT REPORT - PARCS REVENUE PROPERTY LEASE AUDIT

Attached is the Final Audit Report for the PARCS Revenue Property Lease Audit. Internal Audit thanks you and your staff for their cooperation and assistance in performing the audit.

Department Management has responsibility for establishing and maintaining an effective system of internal controls and implementation of Internal Audit recommendations. Internal Audit believes the implementation of the audit recommendations will eliminate or mitigate the risk involved with each of the audit findings.

Internal Audit will perform a follow-up audit six to twelve months after this report is issued to verify that the recommendations have been implemented or that the issues documented in the findings have been resolved in a manner that addresses the risk identified. The follow-up review is performed in accordance with AO 1-12 and Generally Accepted Government Auditing Standards.

If you have any questions regarding this matter, please do not hesitate to contact Bob Koury, Principal Internal Auditor, at 621-7072 or Bill Richards, Internal Auditor, at 621-7063.

#### Attachments

cc: Ashley Swearingin, Mayor  
Council Members  
Mark Scott, City Manager  
Bruce Rudd, Assistant City Manager  
Nicole Zieba, Deputy City Manager  
James Sanchez, City Attorney  
Joe Gray, Finance Director/City Controller  
Dan Turner, Risk Manager, Personnel Services Department  
Jane Sumpter, Principal Budget Analyst, Budget and Management Studies Division

**INTERNAL AUDIT**



**FINAL AUDIT REPORT**

**PARCS  
Revenue Property Lease Audit**

**Audit Number 10-0012**

**Performed by:  
Bill Richards, Internal Auditor  
Budget and Management Studies Division – Internal Audit**

**Issued on June 8, 2010**

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## Executive Summary

The most significant audit findings are summarized below based on the results of our review of a sample of PARCS Revenue Property Leases. Our audit findings are intended to assist PARCS Management in their contract oversight responsibilities as well as enhance rental revenues on City owned properties.

### Key Audit Findings

- **The Contract Administrator position has been vacant for several months. PARCS oversight of contracts is inhibited by the vacant Contract Administrator position and decreases in staffing. The vacant position has an adverse impact on the continuous administration, monitoring and enforcement of contract compliance.**
- **Per PARCS records, there are currently twelve City owned properties being leased to outside entities with no rent being assessed and collected. Based on a reasonable and fair amount of rent, the City (PARCS) could generate additional rental revenue of approximately \$36,000 per year.**
- **The base rent for one Lessee was not adjusted (increased) as stipulated in the Lease resulting in lost rent revenue of approximately \$1,309.**
- **Late payment charges were not assessed as stipulated in the Leases on rent payments received after the due date on two Lessees resulting in lost revenue of approximately \$5,767.**
- **Utility expenses were not paid by two of the \$1 per year Lessees as stipulated in the Leases resulting in expenses incurred of approximately \$12,220. An additional Lessee did not pay their share of utility expenses as stipulated in the Lease; Internal Audit was unable to calculate their share of utility expenses.**
- **Several of the Lessees' Certificates of Insurance have expired. PARCS should immediately obtain a current Certificate with applicable endorsements from these Lessees evidencing renewal of all required insurance coverage and monitor insurance coverage in the future to ensure appropriate coverage exists.**

## **INTRODUCTION**

### **Background**

As a Best Practice, Internal Audit periodically conducts a Citywide Risk Assessment to identify areas of potential risk to the City. Given the changes in the economy and other factors potentially influencing City services, Internal Audit recently conducted another Citywide Risk Assessment which was used to develop our FY-10 Audit Plan. In accordance with that annual audit plan, Internal Audit is conducting Revenue Property Lease Audits in several Departments.

### **Audit Objectives**

The primary audit objectives were to determine whether (1) adequate internal controls over the administration of revenue leases are in place; (2) all appropriate lease revenue was received in a timely manner and accurately recorded; and (3) both parties to the lease complied with the terms and provisions of the lease.

### **Audit Scope and Methodology**

Internal Audit performed the audit during the period January through April 2010, in accordance with Administrative Order 1-12 and Generally Accepted Government Auditing Standards. In order to accomplish our objectives, Internal Audit interviewed PARCS Management and Staff; selected and reviewed a sample of revenue Leases from the PARCS Contract List, reviewed contract folders, reviewed the Lease Receivables Lists for FY08-10, and reviewed the Contract Sites Expenses Incurred List of FY09-10.

### **Audit Conclusion**

The PARCS Management and staff are a professional group of individuals and are commended for their efforts in the oversight of the numerous property leases they are responsible to administer. However, Internal Audit noted some areas that need strengthening for improved internal control and enhanced property lease revenues. These areas are addressed in this Audit Report.

## **REPORT SECTIONS - RESULTS AND RECOMMENDATIONS**

PARCS provided Internal Audit with their Contract List during our Risk Assessment Project. That list contained 26 Revenue Property Leases with an estimated annual lease revenue of \$240,777. Internal Audit selected a sample of thirteen Lease contracts with an estimated annual revenue of \$178,000. The sample consisted of twelve \$1 Year Leases and three other Leases.

### **I. Contract Administrator**

The Contract Administrator position has been vacant for several months. PARCS oversight of contracts is inhibited by the vacant Contract Administrator position and decreases in staffing. Per our review, the contract files are organized and neat with a contract folder for each contract but the vacant position has an adverse impact on the continuous administering, monitoring and enforcing contract compliance (e.g. receipt of timely rent payments, assessment of late payment charges, current Insurance Certificates.)

#### **Audit Recommendation**

1. PARCS Management should either fill the Contract Administrator vacancy or assign all the Contract Administrator responsibilities to a staff member to ensure the continuous administration, monitoring, and enforcing of revenue property lease compliance and enhanced rental revenue.

#### **Management Response to Recommendation 1**

PARCS Management concurs with the Audit Recommendation - See attached June 3, 2010 Memorandum Response.

### **II. City Owned Property Leased for \$1 Year**

Internal Audit reviewed a sample of the \$1Year Lease Contracts listed on the PARCS Contract List, the respective Contract folders, the PARCS FY08-10 Lease Receivables Listings, and the PARCS FY09-10 Contract Sites Expenses Incurred Lists. Internal Audit noted the following for the sampled contracts (see Exhibit A):

- Two Lease Contracts are not under PARCS oversight. The Meux Home is under the City Managers Office's oversight and the Fresno Convention and Visitors Bureau Water Tower is under the Department of Public Utilities oversight.
- The Fresno County EOC Head-Start Program Lease of space at the Mosqueda Center expired on December 31, 2007.
- Ten annual rent payments of \$1 each were not received and two Lease entities were not listed on the Lease Receivables List.
- Two Lessees did not pay the utilities expenses as required by the Lease. PARCS paid \$7,133 in FY-09 for the Boys & Girls Club, East; and paid \$2,658 in FY-09 and \$2,429 in FY-10 for the Discovery Center, for a total of \$12,220 paid by PARCS instead of by the Lessees.
- Four Insurance Certificates have expired and two contract folders did not contain an Insurance Certificate. In addition, one current Certificate does not list the City as Certificate Holder and Additional Insured and one current Certificate does not list Workers Compensation coverage.

- Twelve City owned properties are being leased to outside entities with no rent being assessed and collected (Exhibit A). If the City (PARCS) were to assess and collect even a reasonable rent amount of \$250 per month from each of the twelve entities, this would equate to approximately \$36,000 in additional rental revenue for the City (PARCS). This additional rental revenue could also help defray some of the maintenance and repair expenses for these City owned properties.

### **Audit Recommendations**

2. PARCS Management should update their Contract List and Lease Receivables List to ensure the Lists contain the Lease Contracts for which PARCS has oversight responsibility.
3. PARCS Management should determine if the expired Fresno County EOC Head-Start Program Lease is to be extended or the property leased to another non-profit organization.
4. PARCS Management should pursue the collection of all unpaid annual rents and increase their monitoring efforts in the future to ensure the receipt of all revenue in a timely manner.
5. PARCS Management should pursue the collection of the Lessees' utility expenses for FY09-10 to ensure cost recovery and increase their monitoring efforts in the future.
6. PARCS Management should immediately obtain from all applicable Lessees a current Certificate of Insurance with applicable endorsements evidencing renewal of all required insurance and monitor insurance coverage in the future to ensure coverage exists.
7. PARCS Management should immediately pursue and implement a reasonable and fair amount of rent for all City owned properties currently being leased to outside entities at "no rent", e.g. at \$250 per month for the twelve lessees would generate \$36,000 per year in additional rental revenue.

### **Management Response to Recommendations 2-7**

PARCS Management concurs with the Audit Recommendations - See attached June 3, 2010 Memorandum Response.

### **III. Valley Arts and Science Academy**

The Valley Arts and Science Academy lease is for vacant property adjacent to the Ted C. Wills Community Center to establish a charter school. The Lease period is March 2007 through February 2012. The rent is \$2,000 per month with an annual rent increase in the second through the fifth year. The rent is due on the first of each month and subject to a late charge of 7% for payments received after the fifth day of the month. Internal Audit reviewed the Lease Contract, the Contract folder, the FY08-10 Lease Receivables Lists and noted the following:

- The base rent was not adjusted yearly. The FY08-10 Lease Receivables Lists shows the rent received as \$2,000 a month. The monthly rent was not increased on September 2008 and September 2009 resulting in an estimated \$1,309 in lost rent revenue. The Lease Contract Section 1.7.4 states, "The Base Rent for the second, third, fourth and fifth calendar years of the Term shall be adjusted yearly on the anniversary of the Commencement Date and shall be the greater of (i) the product of the Base Rent for the immediately preceding calendar year multiplied by 1.025 or (ii) the product of the Base Rent for the immediately preceding calendar year multiplied by

COLA, as in effect on the first business day of the each respective calendar year of the Term.” Internal Audit informed PARCS Management and a meeting was immediately scheduled with the Lessee.

- Late payment charges were not assessed. The PARCS Lease Receivables Lists for FY08-10 shows the monthly rent payment amount and date. Internal Audit estimated late payment charges were not assessed on 30 late payments totaling \$4,246. However, based on a discussion with PARCS staff, the payment date recorded on the Lease Receivables List may not be the actual payment received date as payments received are not date stamped. The Lease Contract Section 5.1 states, “Base Rent shall be payable to Landlord in advance on the first business day of each calendar month.” Contract Section 5 states, “Tenant shall be entitled to a five (5) day grace period to pay rent.” Section 5.6 states, “... if any installment of rent or other sum due from Tenant shall not be received in full by Landlord or Landlord’s designee on the date said payment is due, then Tenant shall pay to Landlord a late charge equal to interest accrued on such payment at the rate of seven (7%) percent per annum, based upon the full amount of said payment, any partial payment notwithstanding.”
- The Lessee did not pay their share of utility expenses. PARCS paid the Ted C. Wills Community Center utility expenses of \$94,181 in FY-09 and \$72,204 in FY-10 to date. Internal Audit was unable to estimate the Lessee’s share of utility expenses. The Lease Contract Section 12.1 states, “Tenant shall pay Tenant’s Share of Expenses of all water, gas, heat, light, power, sewer, electricity, and telephone or other service metered, chargeable or provided to the Property and Project.”
- The Certificate of Insurance in the contract folder expired in November 2009. All required insurance coverage may not be in full force and effect. The Lease Contract Section 15.1 states, “In the event any policies are due to expire during the term of this Lease, Tenant shall provide a new certificate evidencing renewal of such policy not less then 15 calendar days prior to the expiration date of the expiring policy(ies).”
- The Lessee did not submit annual Financial Statements. The Lease Contract Section 19.1 states, “Tenant shall furnish the following to the Landlord on or before June 30 of each year, a copy of ...consolidated financial statements audited...or reviewed by a ... recognized firm of certified public accountants.”

#### **Audit Recommendations**

8. PARCS Management should immediately pursue the assessment and collection of the current and prior years rent adjustments and increase their monitoring efforts in the future to ensure the timely receipt of all appropriate lease revenue.
9. PARCS Management should implement a procedure to date stamp all rent payments received from Lessees to properly document actual receipt dates of rent payments. In addition, PARCS Management should pursue the feasibility of determining the actual received date of the rent payments from the Lessee and assessing late payment charges accordingly.
10. PARCS Management should calculate and pursue collection of Lessee’s share of the utility expenses for FY09-10, as appropriate, and ensure the Lessee pays their share in the future as required by the Lease.

11. PARCS Management should immediately obtain from the Lessee a current Certificate of Insurance with applicable endorsements evidencing renewal of all required insurance and monitor insurance coverage in the future to ensure coverage exists.
12. PARCS Management should obtain from the Lessee a current copy of the required Lessees' Financial Statements and ensure a copy is received annually in the future per the lease.

**Management Response to Recommendations 8-12**

PARCS Management concurs with the Audit Recommendations - See attached June 3, 2010 Memorandum Response.

**IV. Central California Events, Inc.**

Central California Events leases a building with paved parking for the purpose of entertainment and recreational uses. The Lease commenced in January 2009 and is month-to-month and shall automatically renew until terminated. The monthly rent is \$1,000 January through July and the month of December, and \$4,000 per month August through November. The rent is due on the first of each month and subject to a late charge of 10% for payments received after the seventh day of the month. Internal Audit reviewed the Lease Contract, the Contract folder, the FY08-10 Lease Receivables Lists and noted the following:

- The Lessee was not on the FY-09 Lease Receivables List and the FY-10 List did not show the receipt of the March 2010 rent payment. Internal Audit informed PARCS Management and immediately received updated Lease Receivables Listings and determined that rent payments were timely received.
- The Certificate of Insurance in the contract folder expired in November 2009. All required insurance coverage may not be in full force and effect. The Lease Contract Section 11 states, "In the event any policies are due to expire during the term of this Lease, Lessee shall provide a new certificate evidencing renewal of such policy not less than 15 calendar days prior to the expiration date of the expiring policy(ies)."

**Audit Recommendations**

13. PARCS Management should ensure the Lease Receivables Listings are timely updated to ensure accurate and timely recording of lease revenue and for future reference or audit purposes.
14. PARCS Management should immediately obtain from the Lessee a current Certificate of Insurance with applicable endorsements evidencing renewal of all required insurance and monitor insurance coverage in the future to ensure coverage exists.

**Management Response to Recommendations 13-14**

PARCS Management concurs with the Audit Recommendations - See attached June 3, 2010 Memorandum Response.

**V. EBIT Golf, Inc.**

The EBIT Golf contract is a Lease and management agreement to operate the Riverside Municipal Golf Course. The extended Lease period is September 2009 through August 2019. The rent is 14% of gross golf revenue, 3% of gross merchandise revenue, and 3% of gross food and beverage revenue. The rent is

due in arrears on the twentieth day of each month and subject to a late charge of 2% for payments received after the last day of the month. Internal Audit reviewed the Lease Contract, the Contract folder, the Lease Receivables Lists, the Lessee's Sales Detail Reports, and reconciled a sample rent payments to the Lessees' support documentation. Internal Audit noted the following:

- The Lease Receivables Lists did not list the rent payments for FY-08 and February 2010. Internal Audit informed PARCS Management and staff and immediately received updated Lease Receivables Listings.
- Late payment charges were not assessed. The PARCS Lease Receivables Lists for FY08-10 shows the monthly rent payment amount and date. Internal Audit estimated late payment charges were not assessed on four late payments totaling \$1,521. However, based on our discussion with PARCS staff, the payment date recorded on the Lease Receivables List may not be the actual payment received date. Payments received are not date stamped. The Lease Contract Section 4.02 states, "Rent shall be paid in arrears in the following manner: On the twentieth (20<sup>th</sup>) calendar day of each month." The Contract Section 4.04 states, "A late payment charge of two percent (2%) per month shall be added to any late payment that is received after the last day of the calendar month in which payment is due."
- The Certificate of Insurance in the contract folder expired on June 30, 2009. All required insurance coverage may not be in full force and effect. The Lease Contract Section 13.1 states, "In the event any policy is due to expire during the work to be performed by City, Lessee shall provide a new certificate, and applicable endorsements, evidencing renewal of such policy not less than 15 calendar days prior to the expiration date of the expiring policy."

#### **Audit Recommendations**

15. PARCS Management should ensure the Lease Receivables Listings are timely updated to ensure accurate and timely recording of lease revenue and for future reference or audit purposes.
16. PARCS Management should implement a procedure to date stamp all rent payments received from Lessees to properly document the actual received date of rent payments. In addition, PARCS Management should pursue the feasibility of determining the actual received date of the rent payments from the Lessee and assessing late payment charges accordingly.
17. PARCS Management should immediately obtain from the Lessee a current Certificate of Insurance with applicable endorsements evidencing renewal of all required insurance and monitor insurance coverage in the future to ensure coverage exists.

#### **Management Response to Recommendations 15-17**

PARCS Management concurs with the Audit Recommendations - See attached June 3, 2010 Memorandum Response.

<b>\$1 Year Property Leases</b>										
source: PARCS Contract List, Contract folders as of 3/11/10, the FY08-10 Lease Receivables List received 3/19/10 and updated 4/19/10										
Name	Description	Contract Begins	Contract Ends	Rent Due Date	Description	Rent Paid FY08-10	Insurance Certificate Current	Lessee Pays Utilities	PARCS Pays Utilities	Comments
1	Boys and Girls Clubs of Fresno, East	6/3/2008	2/28/2033	July 1st	\$1 per year. Tenant to pay all utilities and maintenance charges	No	No - 9/6/2009	All, but City paid \$7,133 FY09	none	
2	Boys and Girls Clubs of Fresno, West	2/1/1958	1/31/2057	July 1st	\$1 per year. Tenant to pay all utilities and maintenance charges	Not on Lease Receivables List	No - 9/6/2009	NA	NA	
3	Chafee Zoo Lease Agreement	2/22/2005	2/21/2035	Dec 22nd	\$1.00 per year on 12/22 of each year from Chafee Zoo	Not on Lease Receivables List	No Certificate in Contract folder	All	none	Telephone and internet installation, connection and service fees
4	Chicano Youth Center (Portion of Dickey Youth Development Center)	9/3/2008	9/2/2063	July 1st	CYC pays city \$1.00 per year base rate	No	No - 1/5/2010 Yes - 7/1/2010 but City not listed as Certificate Holder nor as Additional Insured	All, but City paid \$2,658 FY09 and \$2,429 in FY10	none	All other utilities
5	Discovery Center, Reedy Park	9/1/1991	8/31/2011	Sept 1st	\$1.00 annually from Discovery Center. Litigation Pending	No				
6	Fresno Convention and Visitors Bureau Water Tower	4/12/2000	2/10/2013		\$1.00 annually from tenant. EOC pays City \$1.00 annually. EOC to pay the cost of utilities, custodial and janitorial services.					DPU Oversight
7	Fresno County EOC Head Start for Mosqueda Center	1/1/1996	12/31/2007	not stated	Not invoiced by City	No	No - 9/1/2007	All	none	


Name	Description	Contract		Rent		Rent Description	Rent Paid FY08-10	Insurance Certificate Current	Lessee Pays Utilities	PARCS Pays Utilities	Comments
		Begins	Ends	Due Date	Description						
8 Meux Home Corporation		4/1/1979	6/30/1984			\$1.00 per year paid from Meux Home					CMO Oversight
9 Storyland/Playland Roeding Park Veterans Council at VMA (Veterans Memorial Auditorium)	Premises space	3/25/2008	9/3/2013	Nov 30th		Playland pays City \$1.00 yearly on or before Nov 30	No	No Certificate in Contract folder	All telephone, maintenance, and janitorial	none	
10 Veterans Legion of Valor Museum at VMA	space	3/1/1992	3/1/2022	not stated		\$1.00 annually City pays \$22,500 Annually to Legion of Valor for Expense. City also pays \$5,000 annually for Veteran's parade. Lessee will pay City \$1.00 annually. Lessee will pay all operations cost and maintenance. City lessor pays other utilities	No	NA - Not mentioned in the contract	telephone, maintenance, and janitorial	Any other utilities	
11 Veterans Legion of Valor Museum at VMA	space	2/19/1992	3/1/2022	not stated			No	NA - Not mentioned in the contract Yes - 4/10/2010	telephone, maintenance, and janitorial	All other utilities.	
12 Children's Musical Theater at VMA	space	6/3/2003	6/2/2013	not stated		Lessee pays City \$1.00 annually	No	but Workers Comp coverage not listed on Certificate	telephone, maintenance, and janitorial	All other utilities.	
			1 Expired				8 - not paid 2 - unknown	4 - expired	5 - Lessee pays	4 - City pays	
								1 - current but no Workers Comp coverage on Certificate			
								1 - current but City not shown as Holder/Additional Insured			
								2 - no Certificate in folder			
								2 - NA not mentioned in contract			



**PARKS, AFTER SCHOOL, RECREATION & COMMUNITY SERVICES DEPARTMENT**

DATE: June 3, 2010

TO: BOB KOURY, Principal Internal Auditor  
BILL RICHARDS, Internal Auditor  
Budget and Management Studies Division/Internal Audit

FROM: PAUL A. MELIKIAN, Administrative Manager 

SUBJECT: RESPONSE TO REVENUE PROPERTY LEASE AUDIT

An audit of the PARCS Revenue Property Lease was recently performed by Internal Audit. The Department would like to commend Bob Koury and his staff for conducting a quality comprehensive audit and providing timely feedback to our staff. Our initial responses and actions to the audit recommendations are as follows:

**Finding 1: Contract Administrator**

1. PARCS Management agrees with the recommendation of assigning all Contract Administrator responsibilities to staff members to ensure the continuous administration, monitoring, and enforcing of revenue property lease compliance and enhanced rental revenue. Due to the loss of the Management Analyst II position that was previously assigned to this function, the Administrative Manager has taken over oversight of contracts. This is in addition to the elimination of 80% of administrative support positions since January 2010. As a result, only the highest priority tasks will be undertaken. Inevitably, unless additional staff is retained, some lower priority contract management functions will not occur, or at best, at less frequent intervals.

**Finding 2: City Owned Property Leased for \$1.00 Year**

2. The Meux Home Museum lease is in the middle of the renewal process and will be taken to Council for approval in the next 60 days. The new lease will specify that PARCS is the contract administrator. Staff will investigate IA's finding that the Water Tower should be under DPU's oversight. PARCS is currently working with the CVB to transfer Water Tower utility accounts to the City as they are vacating the premises mid-June.
3. PARCS has met with representatives from Fresno County EOC Head-Start Program to discuss their building and land leases at five locations within the park system. (All five leases are currently expired.) The five sites have been renegotiated to both parties satisfaction and will be taken before Council in the next 60 days.
4. Staff will address the non-payment of the \$1.00/year leases as time permits, however recognizing the challenges described in response #1; this has been deemed a lower priority activity. The lease receivables list has been updated to include all lease entities.

5. The Department no longer pays the utilities for Boys & Girls Club, East. The Discovery Center lease is being revised and updated, which will clear up the utility issue there.
6. Staff will make every effort to obtain from all applicable Lessees' a current Certificate of Insurance with applicable endorsements.
7. The Department has committed to renegotiate 'no rent' leases as they come up for renewal (or as an opportunity arises) to, at minimum, recoup some or all of the City cost associated with maintaining/providing the facility or space to the lessee. However, some leases simply do not support the collection of any rent because of the value of services provided to the general public, i.e. Meux Home Museum, etc.

**Finding 3: Valley Arts and Science Academy (VASA)**

8. VASA's rent will be adjusted July 2010 to bring them current to the annual adjustments built into their lease. The Department will add annual rent adjustment reminders to its lease tracking spreadsheet so that lease payments will be adjusted as required.
9. Staff will investigate internal procedure and feasibility of date stamping payments received from Lessees' to properly document actual receipt dates of rent payments. As time/schedules permit, Staff will assess late payment charges accordingly.
10. Using IA's findings as the catalyst, Staff met with the VASA Board May 2010 and negotiated a utility reimbursement formula that will be put in place July 2010.
11. Done
12. Done

**Finding 4: Central California Events, Inc.**

13. PARCS Management has taken the necessary steps to ensure that all Lease Receivables Listings are timely updated to ensure accurate and timely recording of lease revenue and for future reference or audit purposes. This list will be reviewed by the Administrative Manager on a monthly basis.
14. Done

**Finding 5: EBIT Golf, Inc.**

15. Same answer as #13.
16. Same answer as #9.
17. Done.

C: RANDALL L. COOPER, Director